

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

COMPETITIVE PRODUCT PRICES
GLOBAL EXPEDITED PACKAGE SERVICES 3 (MC2010-28)
NEGOTIATED SERVICE AGREEMENT

Docket No. CP2017-15

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1**

(October 25, 2016)

The United States Postal Service (Postal Service) hereby provides its response to Chairman's Information Request No. 1, issued on October 20, 2016. Each question is stated verbatim and followed by the response. Because portions of the Postal Service's responses include non-public information, the Postal Service has filed its responses under seal and included redacted versions in this filing. The Postal Service incorporates by reference its application for non-public treatment for the protection of these materials in its initial notice in this docket.¹

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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¹ Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, Docket No. CP2017-15, October 14, 2016.

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To clarify the Postal Service's request to include an additional Global Expedited Package Services 3 (GEPS 3) agreement (Agreement) within the GEPS 3 product,² the Postal Service is requested to provide written responses to the following questions by October 25, 2016.

The Agreement obligates the Postal Service to provide pickup service for Qualifying Mail. Notice, Attachment 1 at 2.

1. Please provide the projected volume and cost of Qualifying Mail that will receive pickup service.
2. Please explain how the Postal Service accounts for the cost of its obligation to provide pickup service for Qualifying Mail.
3. If the Postal Service does not account for this cost, please explain why.

RESPONSE:

The attached Governors' Decision No. 08-7³ includes:

- Attachment B, Formulas for Prices Under Applicable Global Expedited Package Services Contracts; and

² Notice of United States Postal Service of Filing a Functionally Equivalent Global Expedited Package Services 3 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, October 14, 2016 (Notice).

³ The first page of the Postal Service's initial notice in this docket states that "Prices and classifications not of general applicability for GEPS contracts were previously established by the Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Global Expedited Package Services Contracts, issued May 6, 2008 (Governors' Decision No. 08-7)." The text of the accompanying footnote 2 states the following:

A redacted copy of the Governors' Decision was filed on July 23, 2008, and is filed as Attachment 3 to this Notice. See United States Postal Service Notice of Filing Redacted Copy of Governors' Decision No. 08-7, Docket No. CP 2008-5, July 23, 2008. An unredacted copy of this Governors' Decision was filed earlier under seal. Notice of United States Postal Service of Governors' Decision Establishing Prices and Classifications for Global Expedited Package Services Contracts, Docket No. CP2008-4, May 20, 2008. (Notice, at 1 n. 2)

The Postal Service has filed at least one hundred GEPS 3 agreements with the Postal Regulatory Commission (Commission) during the last few years. At some point, a consensus was reached that the Postal Service should not include a hard copy of Governors' Decision No. 08-7 in each GEPS 3 filing, and instead footnote 2 discussed above would be sufficient.

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- Attachment C, Analysis of the Formulas for Prices Under Applicable Global Expedited Package Services Contracts.

The second page of Attachment C includes the following statement:



Furthermore, the certification included with the Postal Service's initial filing in this docket states that:

The prices, resulting in a cost coverage of in excess of the minimum required by the Governors ' Decision, exclusive of pickup on demand and international ancillary services fees, are in compliance with 39 U.S.C § 3633 (a)(1), (2), and (3).⁴

The GEPS 3 agreement that is the subject of this docket includes some rates that are for items tendered at locations other than International Service Centers. Thus, Article 7(4) of the agreement acknowledges that it is possible that, for such items, the Postal Service might have entered into a local pickup arrangement with the customer, for which Pickup on Demand would be charged at the published fee.

Taking into consideration the above, the Postal Service provides the following responses to the Commission's questions.

1. Because the Pickup on Demand fee is a published fee that is a rate of general applicability, the Postal Service does not consider any costs or revenues associated with that service to be part of the rates not of general

⁴ Notice, at Attachment 2.

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applicability that are the subject of this docket. Therefore, the Postal Service considers that the projected volume and cost of any Qualifying Mail that will receive pickup service for the agreement that is the subject of this docket to be beyond the scope of this docket.

2. The Postal Service accounts for any revenues and costs of the Pickup on Demand fee in the published rate counterparts to the services at issue in this filing.
3. Thus, any revenues and costs for Pickup on Demand service related to Priority Mail Express International and/or Priority Mail International would be included in the product groupings described at Mail Classification Schedule sections 2305.6 or 2315.6. As discussed above, the Postal Service does account for any costs and revenues for Pickup on Demand.

**DECISION OF THE GOVERNORS OF THE UNITED STATES POSTAL SERVICE ON THE
ESTABLISHMENT OF PRICES AND CLASSIFICATIONS FOR GLOBAL EXPEDITED PACKAGE
SERVICES CONTRACTS (GOVERNORS' DECISION NO. 08-7)**

May 6, 2008

STATEMENT OF EXPLANATION AND JUSTIFICATION

Pursuant to our authority under section 3632 of title 39, as amended by the Postal Accountability and Enhancement Act of 2006 ("PAEA"), we establish new prices not of general applicability for certain of the Postal Service's competitive service offerings, and such changes in classification as are necessary to implement the new prices. This decision establishes prices by setting price floor and price ceiling formulas for Global Expedited Package Services Contracts. The types of contracts to which these prices will apply are described in Attachment A, the price floor and price ceiling formulas are specified in Attachment B, and management's analysis of the appropriateness of these formulas is explained in Attachment C. We have reviewed that analysis and have concluded that the prices emerging from application of the formulas and the classification changes are in accordance with 39 U.S.C. §§ 3632-3633 and 39 C.F.R. §§ 3015.5 and 3015.7. Contracts which fall within the terms specified in Attachment A, and whose prices fall within the price range established by the price floor and price ceiling formulas specified in Attachment B, are hereby authorized.

The PAEA provides that prices for competitive products must cover each product's attributable costs, not result in subsidization by market dominant products, and enable all competitive products to contribute an appropriate share to the Postal Service's institutional costs. We have determined that prices established according to the formulas listed in Attachment B would be appropriate for the services covered by the types of GEPS Contracts classified in Attachment A.¹ Management's analysis of the formulas, included as

¹ The classification for GEPS Contracts is contained in the Mail Classification Schedule language originally proposed by the Postal Service, as modified in Attachment A. See United States Postal Service Submission of Additional Mail Classification Schedule Information in Response to Order

Attachment C, supports our decision to establish prices through such formulas for the specified types of contracts.

We are satisfied that the prices established by the formulas in Attachment B meet the applicable statutory and regulatory requirements. The price floor formula provides greater than 100 percent coverage of the costs attributable to each of these types of agreements. We accept and rely upon the certification in Attachment D that the correct cost inputs for the formulas have been identified. In addition, the price floor formula

[REDACTED] should cover the agreements' attributable costs and provide a contribution toward the Postal Service's institutional costs. The formula should thus prevent a cross-subsidy from market dominant products. As noted in the certification in Attachment D, entry into agreements pursuant to this Decision should not impair the ability of competitive products as a whole to cover an appropriate share of institutional costs.

No agreement authorized pursuant to this Decision may go into effect unless it is submitted to the Postal Regulatory Commission with a notice that complies with 39 C.F.R. § 3015.5. The notice must include a financial analysis that demonstrates that the agreement covers its attributable costs, based on [REDACTED] Attachment B. The notice must also include a certification from a Postal Service official that the numerical values chosen for each agreement are appropriate, in that they represent the best available information and that the agreement should not result in a cross-subsidy from market dominant products and should not impair the ability of competitive products, as a whole, to cover an appropriate share of institutional costs.

ORDER

In accordance with the foregoing Decision of the Governors, the formulas set forth herein, which establish prices for the applicable GEPS Contracts, and the changes in classification necessary to implement those prices, are hereby approved and ordered into effect. An agreement is authorized under this Decision only if the prices fall within the formulas set by this Decision and the certification process specified herein is followed. After an authorized agreement is entered into, the Postal Service shall comply with all applicable statutory and regulatory requirements.

Prices and classification changes established pursuant to this Decision will take effect fifteen days after the date on which the agreement is filed with the Postal Regulatory Commission.

By The Governors:

A handwritten signature in black ink, appearing to read "Alan C. Kessler", written over a horizontal line.

Alan C. Kessler

Chairman

Attachment A

Description of Applicable Global Expedited Package Services Contracts

2610.2 Global Expedited Package Services (GEPS) Contracts

These are contracts that provide for discounts incentives for Express Mail International (EMI) and/or Priority Mail International (PMI) for all destinations served by Express Mail International and Priority Mail International. Preparation requirements are the same as for all Express Mail International and/or Priority Mail International shipments with the following exceptions: The mailer is required to use USPS-supplied labeling software, or a non-USPS supplied labeling software that has the same functionality as the USPS-supplied labeling software. The software allows for preparation of address labels and Customs declarations and submission of electronic shipment information to the Postal Service, as well as prepayment of Customs duties and taxes and pre-advice for foreign Customs authorities by the Postal Service. The mailer may be required to prepare specific shipments according to country specific requirements. To qualify for a contract, a mailer ~~must tender all of its qualifying mail to the Postal Service and~~ must be capable, on an annualized basis of either tendering at least 600 5,000 pieces of ~~non-First-Class Mail International~~ international mail to the Postal Service, or paying at least \$100,000 in international \$12,000 in non-First-Class Mail International postage to the Postal Service. For a mailer to qualify, the contract must cover its attributable costs.

Size and Weight for Express Mail International:

	Length	Width	Height	Weight ¹
Minimum	Large enough to accommodate postage, address and other required elements on the address side.			
Maximum	36 inches	Length plus girth: 79 inches		

¹ Country-specific restrictions may apply as specified in the International Mail Manual.

Size and Weight for Priority Mail International:

	Length	Width	Height	Weight ¹
Minimum ²	5.5 inches	None	3.5 inches	None
Maximum	42 inches	Length plus girth: 79 inches Circular parcels: diameter: 64 inches		70

¹ Weight and other exceptional size limits based on shape and destination country restrictions may apply as specified in the International Mail Manual.

² Items must be large enough to accommodate postage, address and other required elements on the address side.

Minimum Volume or Revenue Commitment:

Mailers must commit to tender varying minimum volumes or postage of Express Mail International, Priority Mail International or both, on an annualized basis. The mailer is required to meet the minimum volume or weight requirements in effect for manifest mailing as specified by the Postal Service.

Price Categories:

The discount is a fixed discount incentives are based on the volume or revenue commitment above a specified cost floor. Also, separate charges apply if the customer has the Postal Service label the mailpieces labeling, for harmonization and for return services.

GEPS – Express Mail International

GEPS – Priority Mail International

Optional Features:

Pickup On-Demand

International Ancillary Services

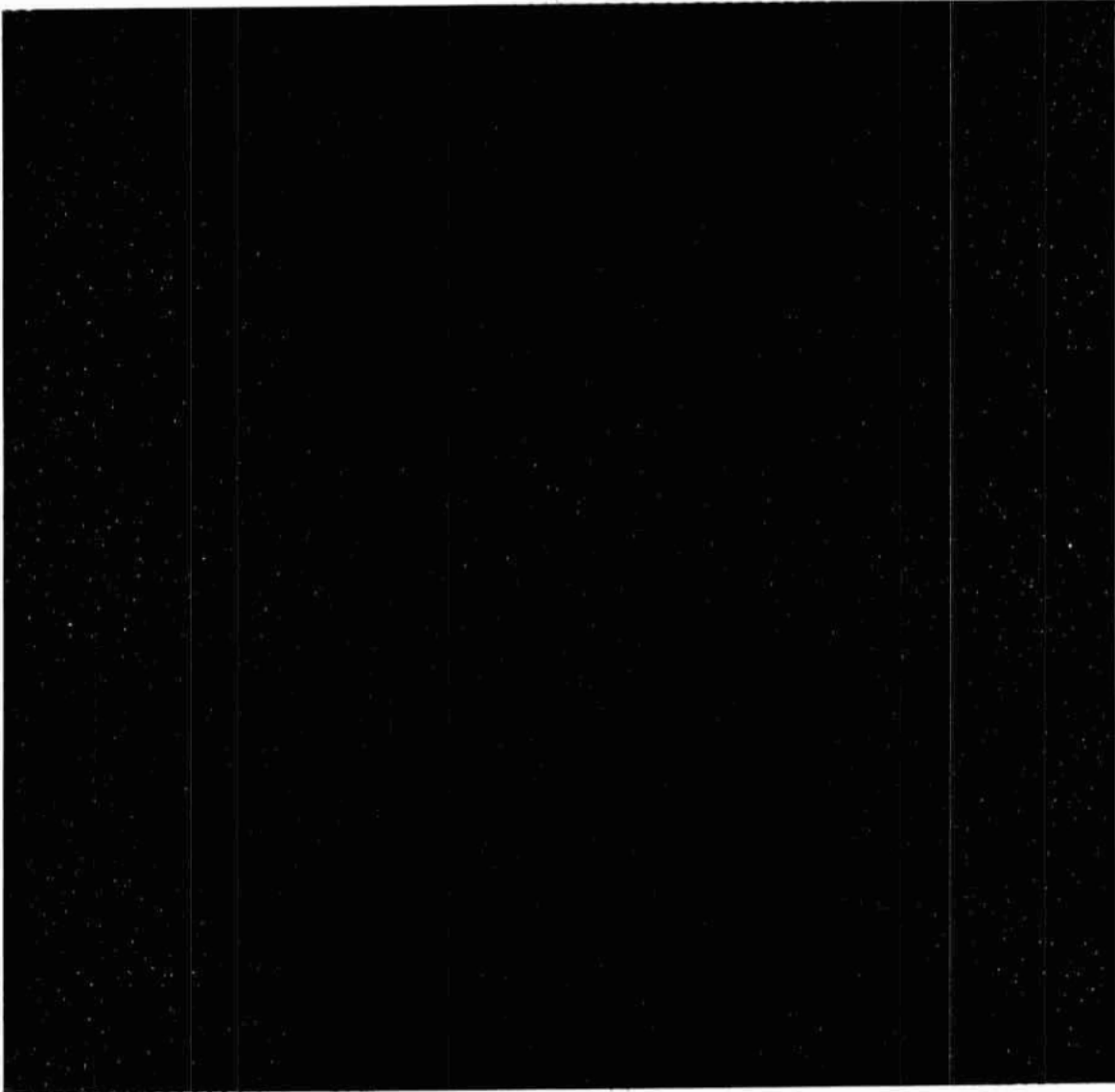
- International Certificate of Mailing (PMI flat-rate envelope only)
- International Insurance
- International Registered Mail (PMI flat-rate envelope only)
- International Restricted Delivery (PMI flat-rate envelope only)
- International Return Receipt

Software-Related Services:

- Labeling: At the mailer's request, the Postal Service will arrange for apply labels and Customs declarations at a postal location to be applied.
- Harmonization: At the mailer's request, the Postal Service facilitates will arrange for classification of merchandise according to country specified Customs regulations to determine applicable duties and taxes.
- Returns: At the mailer's request, the Postal Service will contracts with a returns center appropriate for the particular country. The returns center inspects the goods it receives from the mailer's customers and returns the goods in bulk to the mailer in the United States. The Postal Service invoices the mailer for appropriate charges. The Postal Service may also charge for certain Express Mail International and Priority Mail International undeliverable-as-addressed returns when customs duties have been prepaid.

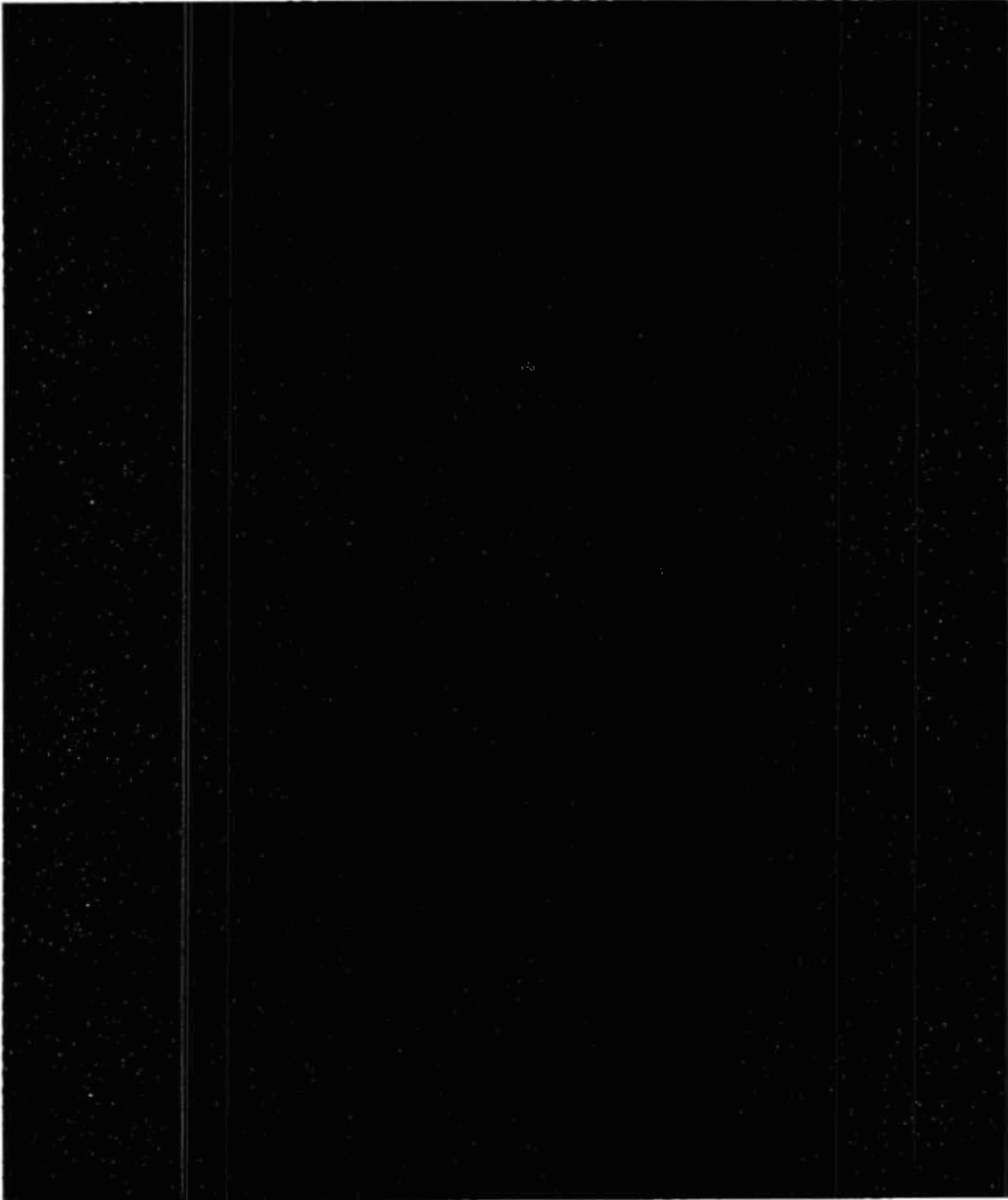
Attachment B

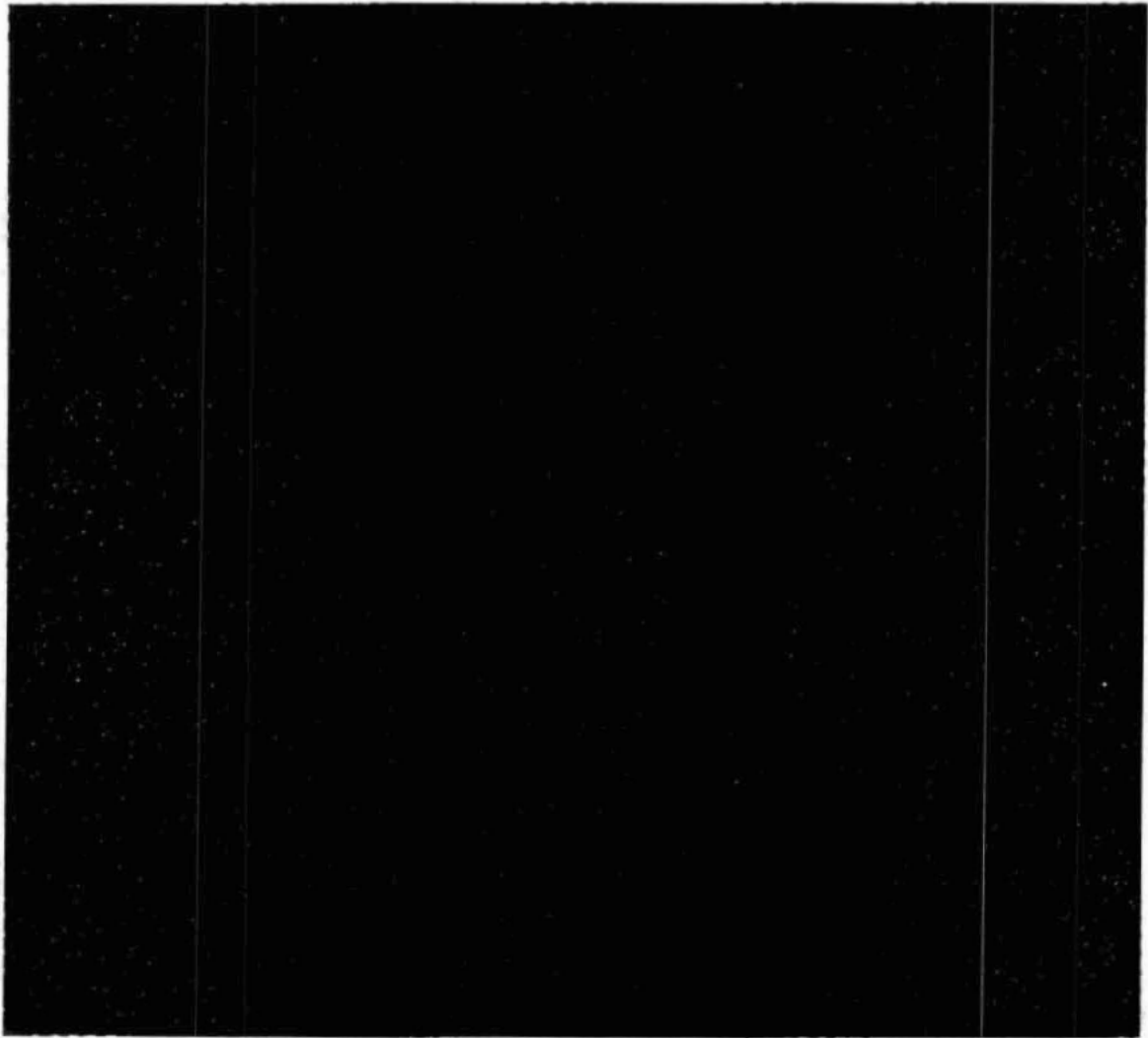
**Formulas for Prices Under Applicable Global Expedited Package Services
Contracts**



Attachment C

**Analysis of the Formulas for Prices Under Applicable Global Expedited Package
Services Contracts**



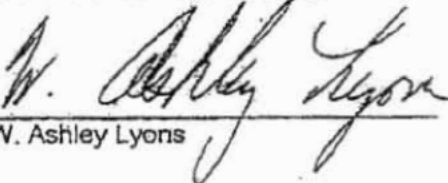


Attachment D

Certification as to the Formulas for Prices Offered Under Applicable Global Expedited Package Services Contracts

I, W. Ashley Lyons, Manager, Corporate Financial Planning, Finance Department, United States Postal Service, am familiar with the price floor formula and price ceiling formula for Global Expedited Package Services Contracts which are set forth in Attachment B.

I hereby certify that these formulas adequately represent all necessary [REDACTED] [REDACTED] If the Postal Service were to enter into agreements that set prices above the price floor, the Postal Service would be in compliance with 39 U.S.C § 3633 (a)(1), (2), and (3). The price floor formula is designed to ensure that each agreement should cover its attributable costs and preclude the subsidization of competitive products by market dominant products. In Fiscal Year 2007, all outbound international competitive mail accounted for approximately 11 percent of the total contribution by all competitive products. Contribution from Global Expedited Package Services Contracts should be much smaller. Even if all the agreements for Global Expedited Package Services Contracts are signed at the price floor, they should not impair the ability of competitive products on the whole to cover an appropriate share of institutional costs.


W. Ashley Lyons

CERTIFICATION OF GOVERNORS' VOTE
IN THE
GOVERNORS' DECISION NO. 08-7

I hereby certify that the following Governors voted at the May 6, 2008, Board meeting on adopting Governors' Decision No. 08-7:

Mickey D. Barnett
James H. Bilbray
Carolyn Lewis Gallagher
Louis J. Giuliano
Alan C. Kessler
Thurgood Marshall, Jr.
James C. Miller III
Katherine C. Tobin
Ellen C. Williams

The vote was 9-0 in favor.

Julie S. Moore
Julie S. Moore
Secretary of the Board of Governors

Date: 5/14/08